



GASB STATEMENT No. 87 Leases

Effective Date

Originally, the requirements of this statement are effective for reporting periods beginning after December 15, 2019. GASB 95 extended the implementation period. For Montana, implementation will be fiscal year starting July 1, 2021 and ending June 30, 2022. The requirements of this statement apply to ALL state and local governments.

Transition

Changes adopted to conform with this provision should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. The reason for not restating prior periods presented should be disclosed.

GASB 87 Lease Definition

1. "A contract that conveys **control** of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange like transaction."
2. "**Control**" requires both; (1.) The right to obtain the present service capacity for use of the underlying asset and (2.) The right to determine the nature and manner of use of the underlying asset. Examples are land, buildings, vehicles, and equipment.

GASB 87 Does Not Apply To

- Intangible assets (mineral rights, copyrights, patents, computer software)
- Biological assets (timber, living plants, living animals)
- Inventory
- Service concession arrangements
- Assets financed with outstanding conduit debt (unless both the asset and the conduit debt are reported by the lessor)
- Supply contracts
- Contracts for services (except contracts that contain both a lease and a service component)
- Assets meeting the requirements of GASB 72 Fair Value Measurement and Application
- Certain regulated leases subject to external laws and regulations (Examples of nonfinancial assets include land, buildings, vehicles and equipment)

- Short-term lease, those where the maximum lease term is 12 months or less including options (treatment similar to current operating lease)
- Contract that transfers ownership and does not contain termination options (treated as purchase/sale)

Lease Term

1. The period during which a lessee has a non-cancelable right to use the underlying asset
PLUS
 - A. Periods in which the lessee or lessor has the option to extend the lease (if reasonably certain the lessee or lessor will exercise that option) or
 - B. Periods in which the lessee or lessor has the option to terminate the lease (if reasonably certain the lessee or lessor will NOT exercise that option)

Exclude From The Lease Term

Periods for which both the Lessee and lessor

- A. Have an option to terminate the lease without permission from the other party
- B. Must agree to extend the lease (An example would be a rolling month to month lease would not be enforceable if both parties have option to terminate and could cancel at any time)

Lease Accounting Commencement

	Assets	Liabilities	Deferred Inflow of Resources
Lessee	Intangible right to use Lease Asset = Initial value of lease liability + payments at/before commencement + direct costs necessary to place asset into service	Lease Liability = Present value of lease payments reasonably certain to be paid (fixed + variable) dependent on index or rate + any other reasonable certain)	
Lessor	Lease Receivable + Present value of lease payments reasonable certain to be received (generally the same as lessee liability). Continue to report lease asset as own capital asset.		Deferred Inflow of Resources = Initial value of lease receivable + payments at/before commencement.

Subsequent Recognition

	Assets	Liabilities	Deferred Inflow of Resources
Lessee	Amortize in systematic and rational manner over the shorter of the lease term or the useful life of the lease asset.	Reduce by lease payments, less outflow of resources (interest expense) resulting from discounting the liability.	
Lessor	Reduce by payment received, less inflow of resources (interest revenue/accrued interest) resulting from discounting the receivable.		Amortize in a systematic and rational manner over the term of the lease.

Discount Rate To Be Used

1. Interest rate charged by the lessor – may be implicit in the lease agreement
2. If the interest rate cannot be readily determined, the lessee's estimated incremental borrowing rate

For more information

[GASB Statement No. 87, Leases](#)

[GASB Publishes Implementation Guidance on Lease Accounting](#)

